ASSIGNMENT QUESTIONS: “The Buy vs Rent Decision”

1. Determine the required monthly payments for the mortgage.
2. Determine the “opportunity” costs, on a monthly basis, of using the required funds for closing (i.e., down payment plus all closing costs), rather than leaving those funds invested and earning the monthly effective rate determined in part (1).
3. Determine the monthly additional payments required to buy versus rent (include the monthly opportunity costs determined in part (2)).
4. Determine the principal outstanding on the mortgage after:
    a. Two years
    b. Five years
    c. Ten years
5. Determine the “net” future gain or loss after two, five and 10 years under the following scenarios, which Rebecca Young has determined are possible after some “due diligence” regarding future real-estate prices in the Toronto condo market:
    a. The condo price remains unchanged.
    b. The condo price drops 10% over the next two years, then increases back to its purchase price by the end of five years, then increases by a total of 10% from the original purchase price by the end of 10 years.
    c. The condo price increases annually by the annual rate of inflation of 2% per year over the next 10 years.
    d. The condo price increases annually by an annual rate of 5% per year over the next 10 years.
6. As Rebecca Young, what decision would you make? Describe any qualitative considerations that could factor into your decision.

HINTS/REVIEW:

- If you don’t remember much, you should review financial concepts of Time Value of Money and Capital Budgeting.
- Also, I recommend you practice or look up how to use the following Excel functions: PV, NPV, PMT.